

**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period
May 1, 2006 Through April 30, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE RUSSELL COUNTY SHERIFF'S SETTLEMENT - 2006 TAXES For The Period May 1, 2006 Through April 30, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Russell County Sheriff for the period May 1, 2006 through April 30, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,189,861 for the districts for 2006 taxes, retaining commissions of \$254,685 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,847,209 to the districts for 2006 Taxes. Refunds of \$325 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis

Deposits:

- The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Mickey Garner, Russell County Judge/Executive
Honorable Larry Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the Russell County Sheriff's Settlement - 2006 Taxes for the period May 1, 2006 through April 30, 2007. This tax settlement is the responsibility of the Russell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Russell County Sheriff's taxes charged, credited, and paid for the period May 1, 2006 through April 30, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Members of the Russell County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

September 24, 2007

RUSSELL COUNTY
LARRY BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period May 1, 2006 Through April 30, 2007

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 417,415	\$ 1,152,564	\$ 2,990,438	\$ 798,950
Tangible Personal Property	48,297	131,241	232,034	266,559
Fire Protection	2,611			
Increases Through Exonerations	70	193	471	173
Franchise Taxes	49,723	134,192	240,375	
Oil and Gas Property Taxes	167	461	1,196	319
Penalties	3,434	9,422	23,672	7,402
Adjusted to Sheriff's Receipt	4	19	(6)	(4)
Gross Chargeable to Sheriff	<u>521,721</u>	<u>1,428,092</u>	<u>3,488,180</u>	<u>1,073,399</u>
<u>Credits</u>				
Exonerations	3,153	8,685	21,721	6,799
Discounts	7,079	19,398	48,685	16,330
Delinquents:				
Real Estate	11,265	31,057	80,580	21,488
Tangible Personal Property	623	1,692	2,992	2,117
Uncollected Franchise Taxes	4,417	11,999	21,451	
Total Credits	<u>26,537</u>	<u>72,831</u>	<u>175,429</u>	<u>46,734</u>
Taxes Collected	495,184	1,355,261	3,312,751	1,026,665
Less: Commissions *	21,333	56,921	132,510	43,921
Taxes Due	473,851	1,298,340	3,180,241	982,744
Taxes Paid	465,954	1,278,952	3,142,673	959,630
Refunds (Current and Prior Year)	7,898	19,484	37,770	23,140
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (1)</u>	<u>\$ (96)</u>	<u>\$ (202)</u>	<u>\$ (26)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
 LARRY BENNETT, SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period May 1, 2006 Through April 30, 2007
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on		2,595,868
4% on		3,583,993

** Special Taxing Districts:

Library District	(17)
Health District	(13)
Extension District	(10)
Soil Conservation District	(2)
Hospital District	(35)
Ambulance District	<u>(19)</u>
Refunds Due Sheriff	<u><u>(96)</u></u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 22, 2006 through April 30, 2007.

Note 4. Interest Income

The Russell County Sheriff earned \$3,141 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Russell County Sheriff collected \$34,921 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operated the Sheriff's office.

Note 6. Advertising Costs And Fees

The Russell County Sheriff collected \$2,880 of advertising costs and \$2,880 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mickey Garner, Russell County Judge/Executive
Honorable Larry Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Russell County Sheriff's Settlement - 2006 Taxes for the period May 1, 2006 through April 30, 2007, and have issued our report thereon dated September 24, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Russell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Russell County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Russell County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Russell County Sheriff's Settlement – 2006 Taxes for the period May 1, 2006 through April 30, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Deposit Funds Intact On A Daily Basis

The Russell County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Russell County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 24, 2007

COMMENTS AND RECOMMENDATIONS

RUSSELL COUNTY
LARRY BENNETT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 1, 2006 Through April 30, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Deposit Funds Intact On A Daily Basis

Test procedures conducted during the audit indicate the Sheriff did not deposit tax receipts on a daily basis. The Governor's Office for Local Development (GOLD) has established requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured banking institution" (KRS 68.210). We recommend the Sheriff implement procedures to ensure tax receipts are batched daily, reconciled to daily collection reports, and deposited daily in order to meet the requirements established by GOLD.

Sheriff's Response: Will follow recommendations.

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we noted the Sheriff's office lacks adequate segregation of duties over receipts and disbursements. The Sheriff's bookkeeper collects money, prepares deposits, and prepares the daily tax collection journal. The bookkeeper also prepares the monthly reports, prepares the checks, and mails the checks to the taxing districts. The Sheriff's office had no documentation of reconciling bank statements monthly or reconciling monthly tax reports to receipts and disbursements. No compensating controls were noted to offset any of these control deficiencies. Therefore, the control deficiencies as described above are significant deficiencies and material weaknesses. We recommend the Sheriff implement the compensating controls noted below to offset this internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily tax collection journal. Any differences should be reconciled. He could document this by initialing the bank deposit and tax collection journal.
- The Sheriff should require the monthly tax distribution reports to be reconciled monthly to receipts and disbursements. He could document this by initialing the monthly tax report.
- The Sheriff should periodically compare payments to taxing districts to checks. He could document this by initialing the monthly tax distribution reports, noting payment amounts were agreed to checks.
- The Sheriff should require monthly bank reconciliations be prepared and periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should receive a signed receipt from each taxing district documenting delivery of the tax payments.

Sheriff's Response: Will be corrected next audit

